

F&F Feedback on EBA's consultation on ESG guidelines

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European Banking Authority



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Legal basis

Article 87(a)5 of Capital Requirements Directive as per December 2023 provisional agreement

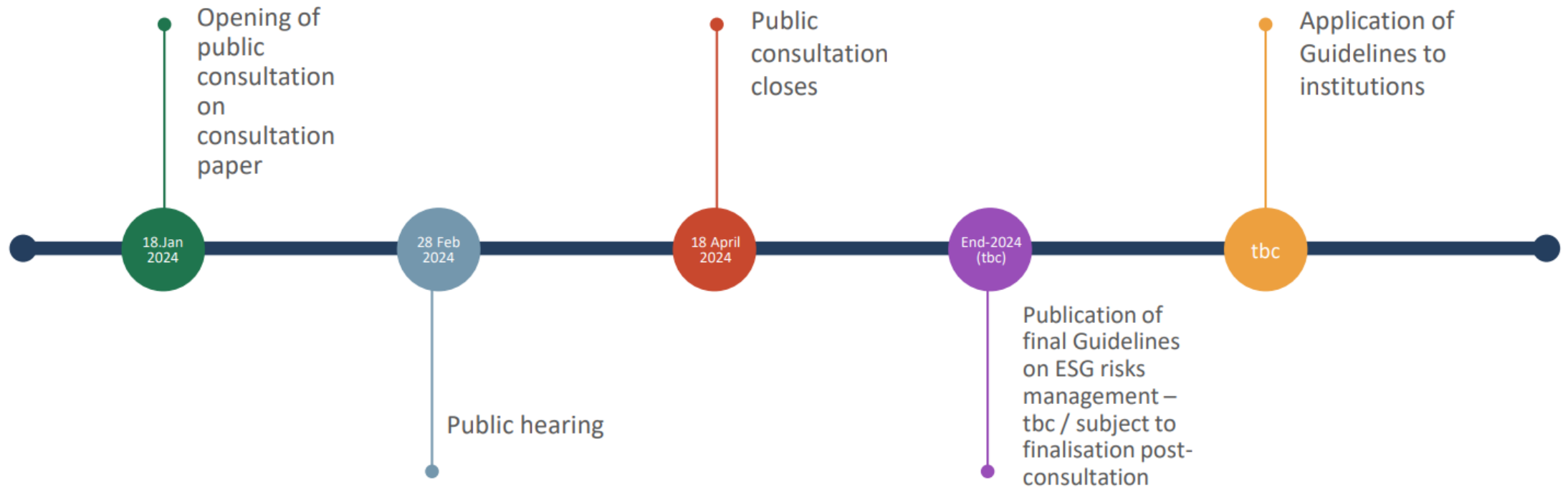
EBA shall issue guidelines, in accordance with Article 16 of Regulation (EU) No 1093/2010, to specify:

- (a) minimum standards and reference methodologies for the identification, measurement, management and monitoring of ESG risks;
- (b) the content of plans to be prepared in accordance with Article 76(2), which shall include specific timelines and intermediate quantifiable targets and milestones, in order to monitor and address the financial risks stemming from ESG factors, including those arising from the process of adjustment and transition trends towards the relevant Member States and Union regulatory objectives in relation to ESG factors, in particular the objective to achieve climate neutrality by 2050 as set out in Regulation (EU) 2021/1119, as well as, where relevant for internationally active institutions, third country legal and regulatory objectives;
- (c) qualitative and quantitative criteria for the assessment of the impact of ESG risks on the risk profile and solvency of institutions in the short, medium and long term;
- (d) criteria for setting the scenarios referred to in paragraph 3 [nb: of article 87a of the CRD], including the parameters and assumptions to be used in each of the scenarios, specific risks and time horizons [nb: climate/ESG stress testing].

EBA shall publish those guidelines by [18 months from date of entry into force of this amending Directive]. EBA shall update those guidelines on a regular basis, to reflect the progress made in measuring and managing ESG risks as well as the development of the Union regulatory objectives on sustainability.

Timeline

EBA



EBA's General approach

- **Key objective** The GLs aim at enhancing the identification, measurement, management and monitoring of ESG risks by institutions and at supporting their safety and soundness as the EU transitions towards a more sustainable economy and ESG risks increasingly become substantiated or materialized.
- **Proportionality** All institutions are subject to the GLs, but proportionality ensured through (i) emphasis on materiality assessment and (ii) SNCIs may implement less complex / sophisticated arrangements
- **Focus on environmental risks** Emphasis on E risks while also minimum requirements on S and G. Important for institutions to cover full spectrum of E risks beyond climate, e.g. biodiversity-related risks
- **Consistency with other EU and international initiatives** The GLs build on and ensure consistency with other EBA products referring to ESG risks, BCBS principles for the effective management of climate-related financial risks and EU legislative and non-legislative initiatives relating to transition plans

Structure of the consultation paper

Structure of consultation paper

Background and rationale

Reference methodology for the identification and measurement of ESG risks

- Materiality assessment
- Identification and measurement of ESG risks (including approach to data and methodologies)

Minimum standards and reference methodology for the management and monitoring of ESG risks

- ESG risks management principles
- Strategies and business models
- Risk appetite
- Internal culture, capabilities and controls
- ICAAP and ILAAP
- Credit risk policies and procedures
- Policies and procedures for market, liquidity and funding, operational, reputational and concentration risks
- Monitoring

Plans in accordance with Article 76(2) of Directive 2013/36

- Key principles
- Governance
- Metrics and targets
- Climate and environmental scenarios and pathways
- Transition planning

Questions: Approach

- **Question 2:** Do you have comments on the proportionality approach taken by the EBA for these guidelines?
- **Question 3:** Do you have comments on the approach taken by the EBA regarding the consideration of, respectively, climate, environmental, and social and governance risks? Based on your experience, do you see a need for further guidance on how to handle interactions between various types of risks (e.g. climate versus biodiversity, or E versus S and/or G) from a risk management perspective? If yes, please elaborate and provide suggestions.

Questions: Identification and assessment of ESG risks

- **Question 4:** Do you have comments on the materiality assessment to be performed by institutions?
- **Question 5:** Do you agree with the specification of a minimum set of exposures to be considered as materially exposed to environmental transition risk as per paragraphs 16 and 17, and with the reference to the EU taxonomy as a proxy for supporting justification of non-materiality? Do you think the guidelines should provide similar requirements for the materiality assessment of physical risks, social risks and governance risks? If yes, please elaborate and provide suggestions.
- **Question 6:** Do you have comments on the data processes that institutions should have in place with regard to ESG risks?
- **Question 7:** Do you have comments on the measurement and assessment principles?
- **Question 8:** Do you have comments on the exposure-based methodology?
- **Question 9:** Do you have comments on the portfolio alignment methodologies, including the reference to the IEA net zero scenario? Should the guidelines provide further details on the specific scenarios and/or climate portfolio alignment methodologies that institutions should use? If yes, please elaborate and provide suggestions.

Questions: Management and monitoring of ESG risks

- **Question 10:** Do you have comments on the ESG risks management principles?
- **Question 11:** Do you have comments on section 5.2 –consideration of ESG risks in strategies and business models?
- **Question 12:** Do you have comments on section 5.3 –consideration of ESG risks in risk appetite?
- **Question 13:** Do you have comments on section 5.4 –consideration of ESG risks in internal culture, capabilities and controls?
- **Question 14:** Do you have comments on section 5.5 –consideration of ESG risks in ICAAP and ILAAP?
- **Question 15:** Do you have comments on section 5.6 –consideration of ESG risks in credit risk policies and procedures?
- **Question 16:** Do you have comments on section 5.7 –consideration of ESG risks in policies and procedures for market, liquidity and funding, operational, reputational and concentration risks?
- **Question 17:** Do you have comments on section 5.8 –monitoring of ESG risks?

Questions: Plans under article 76(2) of CRD6

- **Question 1:** Do you have comments on the EBA's understanding of the plans required by Article 76(2) of the CRD, including the definition provided in paragraph 17 and the articulation of these plans with other EU requirements in particular under CSRD and the draft CSDDD?
- **Question 18:** Do you have comments on the key principles set by the guidelines for plans in accordance with Article 76(2) of the CRD?
- **Question 19:** Do you have comments on section 6.2 –governance of plans required by the CRD?
- **Question 20:** Do you have comments on the metrics and targets to be used by institutions as part of the plans required by the CRD? Do you have suggestions for other alternative or additional metrics?
- **Question 21:** Do you have comments on the climate and environmental scenarios and pathways that institutions should define and select as part of the plans required by the CRD?
- **Question 22:** Do you have comments on section 6.5 –transition planning?
- **Question 23:** Do you think the guidelines have the right level of granularity for the plans required by the CRD? In particular, do you think the guidelines should provide more detailed requirements?
- **Question 24:** Do you think the guidelines should provide a common format for the plans required by the CRD? What structure and tool, e.g. template, outline, or other, should be considered for such common format? What key aspects should be considered to ensure interoperability with other (e.g. CSRD) requirements?

Feedback

- Double materiality and alignment with CSRD and CSDDD
- Alignment with EUDR
- Alignment with climate neutrality by 2050
- Structural changes to business models
- Intersections between ESG issues, criteria, standards, collaboration
- Precautionary principle
- Due diligence and alternative data sources: F&F...
- Consistency in plans and remuneration
- Transparent disclosure
- Targets GBF 14,15, 19

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